

# CITY OF PHOENIX EMPLOYEES' RETIREMENT SYSTEM (COPERS)

## POPULAR ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2014

# Introduction - About COPERS

## COPERS BOARD

|                   |                               |
|-------------------|-------------------------------|
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**Elizabeth Bissa**  
Chairperson



**Cathleen Gleason**  
Vice Chairperson



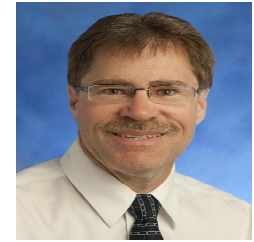
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Board Member



**Lionel Lyons**  
Board Member



**Rick Naimark**  
Board Member



**Randy Piotrowski**  
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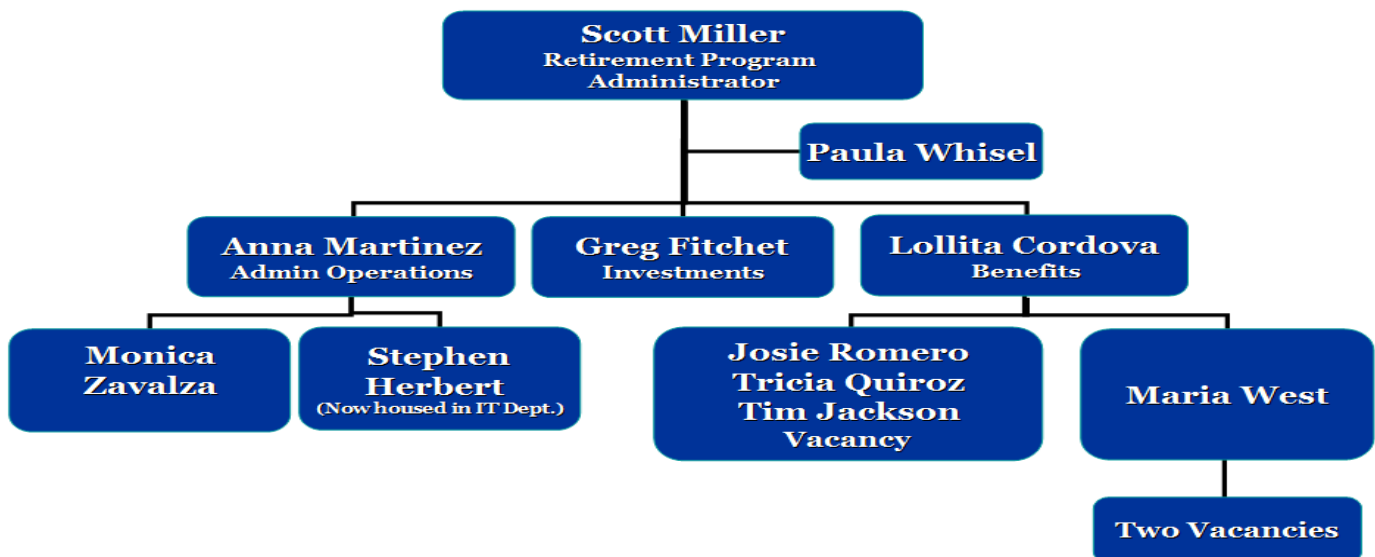


**Corey Williams**  
Board Member



**Neal Young**  
Board Member

## COPERS ORGANIZATION



# Introduction – About COPERS

## Message from the Administrator

Dear Reader:

I am pleased to present the 2014 Popular Annual Financial Report (PAFR) for the City of Phoenix Employees' Retirement System (COPERS) for the fiscal year ended June 30, 2014. The information presented here is a summary of the more detailed 2014 COPERS' Comprehensive Annual Financial Report (CAFR) which is prepared and presented in conformity with Generally Accepted Accounting Principles (GAAP). The PAFR is not intended to replace the CAFR but to summarize the financial health and the investment performance of COPERS throughout the fiscal year. I encourage you to review the CAFR in its entirety online at [phoenix.gov/copers](http://phoenix.gov/copers).

The COPERS Plan is governed by the City of Phoenix Employees' Retirement Law of 1953 (Chapter XXIV of the City of Phoenix Charter). This law has been revised over the years, with the latest amendment approved by the City voters on March 12, 2013. COPERS was created to provide retirement, survivor and disability benefits to the City of Phoenix general employees. COPERS is a qualified retirement plan under the Internal Revenue Code. The City of Phoenix Employees' Retirement Board (the Board) is the trustee of the Plan.

The net asset value of COPERS as of June 30, 2014 was \$2.2 billion. The fiscal year return for the Plan was 15.88%, which was 0.57% better than the portfolio benchmark. The five year annualized return was 11.52%.

On May 1, 2014, COPERS entered into a new custodial relationship transitioning 29 investment accounts with an aggregate value of \$2.2 billion from State Street Bank to BNY Mellon Bank. The transition was the culmination of a four month project during which COPERS' staff worked closely with BNY Mellon to accomplish the transfer. In addition to achieving a number of operational efficiencies in the area of financial reporting, the annual banking fee was reduced nearly 30%.

COPERS launched a new website on October 8, 2014. Access to the new COPERS website, <https://www.phoenix.gov/copers>, is now available from the City's official website at [phoenix.gov](http://phoenix.gov). The new website offers users easy access to pension plan information, the COPERS policy manual and retirement forms. The new website also features a retirement pension estimator tool developed in partnership with the City of Phoenix Human Resources Department. This tool allows general city employees with Tier I benefits to calculate their monthly pension based on COPERS eligibility rules if they are within three years of retirement. In the first two weeks after its launch, nearly 5,000 estimates were generated for over 800 employees.

At its September 2013 meeting, the Board approved several changes to its actuarial assumptions to be used for the actuarial valuation as of June 30, 2014. The actuarial assumption changes included reducing the assumed rate of return from 8.0% to 7.5% and reducing the wage inflation assumption from 5.0% to 3.5%. In 2014 the Board also approved the first Pension Equalization Program ("PEP") increase to retirees' benefits and the first Post Retirement Distribution Benefit (known as the "13th Check") since 2009. The PEP increased retirees' benefits by 1.3% on a permanent basis going forward, effective January 1, 2014. The 13th Check provided retirees a one-time payment of 1% of their annual benefit payment as of June 30, 2014 and was paid on December 1, 2014.

I would like to acknowledge the guidance provided by the Retirement Board. I would also like to acknowledge the hard work of the COPERS staff and the Finance Department for their collaboration for the information provided in the COPERS CAFR and PAFR. This report is intended to provide important information crucial to the understanding of the pension plan.

Sincerely,



Scott A. Miller  
Retirement Program Administrator

# Actuarial Summary – Our Members

## Description of Plan

COPERS is a single-employer, defined benefit pension plan established by the City Charter (Chapter XXIV). Its purpose is to provide retirement, disability retirement and survivor benefits for its members. Members are full-time employees on a work schedule which consists of the number of full-time hours per week designated for the class of employment for the employee's classification and which work schedule is intended to be continuous over a period of twelve months. All full-time classified civil service employees and full-time appointive officials of the City with the exception of sworn police and fire fighters are required, as a condition of employment, to contribute to COPERS.

## Plan Amendment

COPERS is administered in accordance with the Charter and can be amended or repealed only by a vote of the people. There are no provisions for termination of COPERS. Voters approved changes to the City of Phoenix retirement system at a Special Election held on March 12, 2013. New employees hired on or after July 1, 2013 were placed in Tier II. The employee contribution rate for Tier II is based on 50% of the actuarially determined rate necessary to fully fund the Annual Required Contribution.

| Membership Data                               |               |               |
|---|---------------|---------------|
|   | June 30       |               |
|   | 2014          | 2013          |
| Current retirees, beneficiaries and survivors | 6,155         | 5,703         |
| Alternate payees                              | 135           | 121           |
| Terminated vested members                     | 816           | 788           |
| Active members:                               |               |               |
| Tier I  | 7,421         | 8,090         |
| Tier II                                       | 310           | 0             |
| Total Members                                 | <u>14,837</u> | <u>14,702</u> |

## Pension Benefits

Benefits are calculated on the basis of a given rate, final average salary and service credit. Members are eligible for retirement benefits at age 60 plus ten or more years of service credit; age 62 with five or more years of service credit; or where age and service credits equal 80 for Tier I employees and 87 for Tier II employees. The benefit for Tier I employees is based on 2% of final average compensation multiplied by the first 32.5 years of service credit, 1% in excess of 32.5 years to 35.5 years, and 0.5% thereafter. The benefit for Tier II employees is based on 2.1% of final average compensation multiplied by years of service credit for those with less than 20 years, 2.15% for 20-24.9 years, 2.2% for 25-29.9 years and 2.3% thereafter. A deferred pension is available at age 62 for members who have five or more years of service credit at time of separation and leave their accumulated contributions in COPERS.

A supplemental post-retirement payment and a permanent benefit increase (under the Pension Equalization Program) may be provided to retirees if sufficient reserves are available at the end of the fiscal year. The reserve is funded if the five-year average investment return exceeds 8% (per Charter).

## Actuarial Methods and Assumption Changes

The Governmental Accounting Standards Board (GASB) on August 2, 2012, published accounting and financial reporting standards that improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations. The accounting standards were GASB Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*, for public employee pension plans by state and local governments that apply U.S. Generally Accepted Accounting Principles (GAAP).

# Actuarial Summary (Continued)

## Actuarial Methods and Assumption Changes (Continued)

GASB Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later). COPERS implemented Statement No. 67 with the June 30, 2014 CAFR reporting and the City of Phoenix, as the employer plan sponsor, will implement Statement No. 68 with the June 30, 2015 financial reporting.

In September 2013, the COPERS Board adopted new assumptions and methods, based upon the recommendations from the current actuary, Cheiron, for the purpose of determining contributions and to meet the GASB 67 implementation requirements to be applied to the financial reporting for the fiscal year ending June 30, 2014.

The September 2013 adopted changes are the following:

1. Discount rate was lowered to 7.5% based on the expected return on assets.
2. Salary increase rate was changed for price inflation to 3.00%, real wage growth to 0.50% and wage inflation to 3.5%.
3. Pension Equalization Reserve (PER) was valued for future benefits payable through the PER as a 1.5% annual compound cost-of-living adjustment (COLA).
4. Amortization method for the unfunded actuarial liability (UAL) was amortized over a 25-year period as a level percentage of payroll with a four year phase-in to the full amortization rate. Future gains and losses are amortized over closed 20-year periods as a level percentage of payroll from the valuation date in which they are first recognized. For Tier I, members contribute 5% of pay and the City contributes the remainder of the total contribution rate. For the Tier II, the members and the City each pay half of the total contribution rate.
5. The administrative expense assumption was added. In prior years, the discount rate was assumed to be net of administrative expenses.

## Funded Status and Funding Progress (as of most recent valuation)

Unfunded actuarial liabilities are determined annually by the consulting actuary and reported to the COPERS' Board.

### Unfunded Actuarial Liability as of June 30, 2014 and June 30, 2013 (in thousands)

|   | 2014           | 2013 <sup>1</sup> | 2013 <sup>2</sup> |
|---|----------------|-------------------|-------------------|
| <b>Actuarial Value of Assets</b>  | \$ 2,120,700   | \$ 1,962,533      | \$ 1,961,939      |
| <b>Actuarial Liability</b>  |                |                   |                   |
| Active Members  | 1,459,048      | 1,546,115         | 1,409,121         |
| Retirees and Beneficiaries Currently Receiving Benefits                         | 2,099,274      | 1,881,123         | 1,603,011         |
| Terminated Members Not Yet Receiving Benefits                                   | 56,461         | 52,209            | 43,475            |
| Total Actuarial Liability   | 3,614,784      | 3,479,447         | 3,055,607         |
| <b>Unfunded Actuarial Liability</b>   | \$ (1,494,084) | \$ (1,516,914)    | \$ (1,093,668)    |
| <b>Funded Ratio</b> (actuarial value of assets to unfunded actuarial liability) | 58.7%          | 56.4%             | 64.2%             |
| <b>Covered Payroll</b>  | \$ 509,267     | \$ 508,032        | \$ 508,032        |
| <b>UAL (as a percentage of covered payroll)</b>                                 | 293.4%         | 298.6%            | 215.3%            |

1. Revised actuarial values after assumption changes were adopted by the Board in September 2013.

2. Prior to assumption changes adopted by the Board in September 2013.

# Financial Summary

## Statements of Fiduciary Net Position

These statements identify the receivables, investments, and liabilities of the Plan to arrive at the Net Position Held in Trust for Pension Benefits payable to retirees and survivors. The current year information is provided in comparison to the previous year to assist the reader in evaluating the progress of the Plan. A summary of COPERS net position held for benefits is shown below:

### Fiduciary Net Position for Benefits for June 30, 2014 and June 30, 2013 (in thousands)

**Table 1: COPERS' Fiduciary Net Position for Benefits for June 30, 2014 and 2013 (in thousands)**

|                         | 2014                | 2013                | Change            | % Change |
|-------------------------|---------------------|---------------------|-------------------|----------|
| Cash & Cash Equivalents | \$ 27,036           | \$ 23,854           | \$ 3,182          | 13.3%    |
| Total Receivables       | 117,296             | 82,523              | 34,773            | 42.1     |
| Total Investments       | 2,246,679           | 2,065,499           | 181,180           | 8.8      |
| Total Assets            | 2,391,011           | 2,171,876           | 219,135           | 10.1     |
| Total Liabilities       | 168,769             | 211,924             | (43,155)          | (20.4)   |
| COPERS' Net Position    | <u>\$ 2,222,242</u> | <u>\$ 1,959,952</u> | <u>\$ 262,290</u> | 13.4%    |

### Total Plan Net Position (in thousands)



## Financial Summary (Continued)

### Statements of Changes in Fiduciary Net Position:

The Statements of Changes in Fiduciary Net Position differ from the Statements of Fiduciary Net Position by providing the reader with the Plan's additions and deductions for the current year and the previous year. The statements provide the net increases or decreases realized during the years. COPERS' is funded through a combination of employer contributions, member contributions, inter-system transfers and investment earnings.

|  |
|--|
| <b>Additions and Deductions to/from Fiduciary Net Position for the fiscal years ended<br/>June 30, 2014 and June 30, 2013<br/>(in thousands)</b> |
|--|

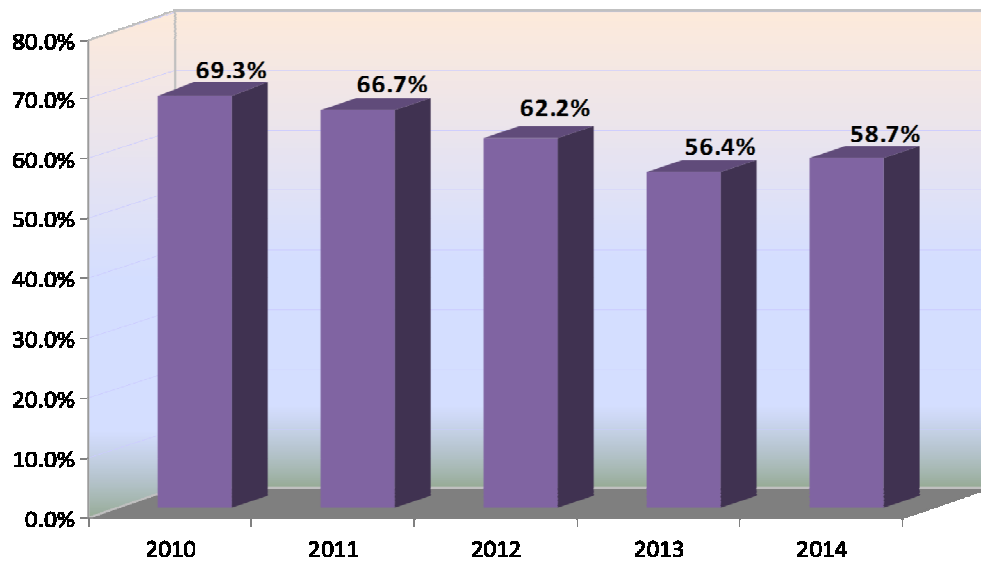
|  | <u>2014</u>         | <u>2013</u>         | <u>Change</u>     | <u>% Change</u> |
|--|---------------------|---------------------|-------------------|-----------------|
| Additions                                      |                     |                     |                   |                 |
| Employer Contributions                         | \$ 115,244          | \$ 110,094          | \$ 5,150          | 4.7%            |
| Members' Contributions                         | 28,815              | 27,738              | 1,077             | 3.9             |
| Inter-System Transfers                         | 160                 | 105                 | 55                | 52.4            |
| Investment Income                              | 298,121             | 194,902             | 103,219           | 53.0            |
| Net Securities Lending Income                  | <u>455</u>          | <u>403</u>          | <u>52</u>         | 12.9            |
| Total  | <u>442,795</u>      | <u>333,242</u>      | <u>109,553</u>    | 32.9            |
| Deductions                                     |                     |                     |                   |                 |
| Benefit Payments                               | 177,447             | 165,521             | 11,926            | 7.2             |
| Refunds  | 2,192               | 2,464               | (272)             | (11.0)          |
| Inter-System Transfers                         | 238                 | 606                 | (368)             | (60.7)          |
| Administrative Expense                         | <u>628</u>          | <u>389</u>          | <u>239</u>        | 61.4            |
| Total  | <u>180,505</u>      | <u>168,980</u>      | <u>11,525</u>     | 6.8             |
| Change in Net Position Restricted for Pensions | <u>262,290</u>      | <u>164,262</u>      | <u>98,028</u>     | 59.7            |
| Ending Net Position Restricted for Pensions    | <u>\$ 2,222,242</u> | <u>\$ 1,959,952</u> | <u>\$ 262,290</u> | 13.4%           |

# Investments Summary

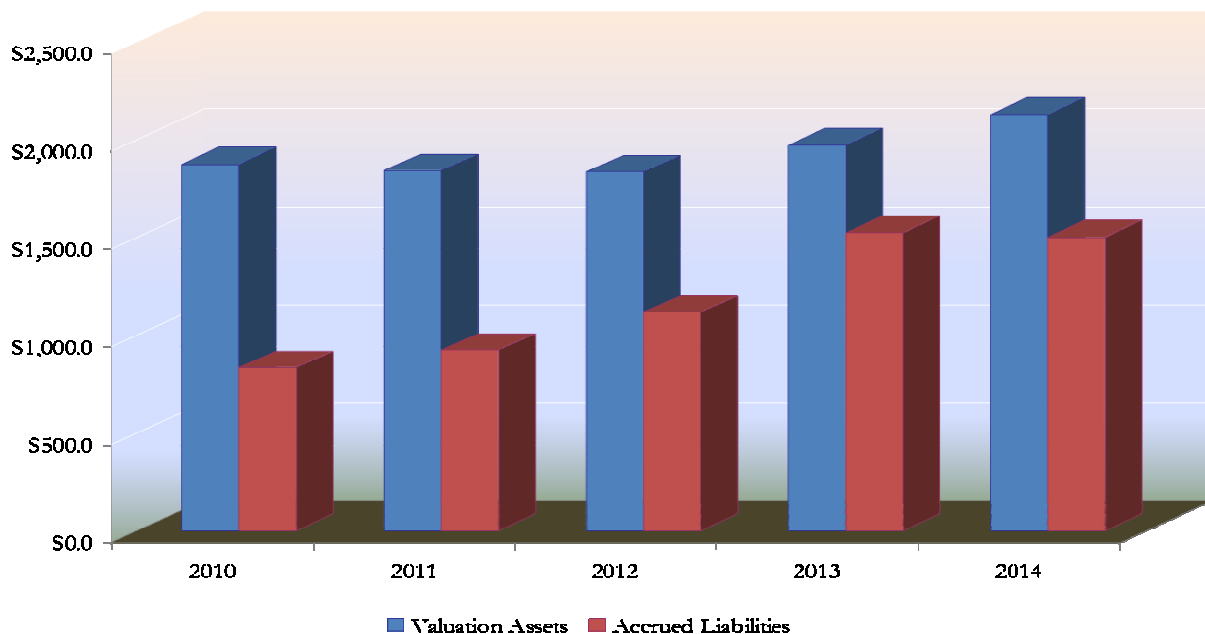
## Assets and Accrued Liabilities

The funded ratio is an actuarial estimate which measures the ratio of assets to liabilities. An accrued liability is an expense incurred but not yet paid. For the June 30, 2014 valuation, the actuary determined COPERS' funded ratio was 58.7%. The June 30, 2013 funded ratio changed from 64.2% to 56.4% due to the COPERS' Board approval of assumption changes at the September 19, 2013 Board meeting.

Funded Ratios



Assets and Liabilities





# Investments Summary (Continued)

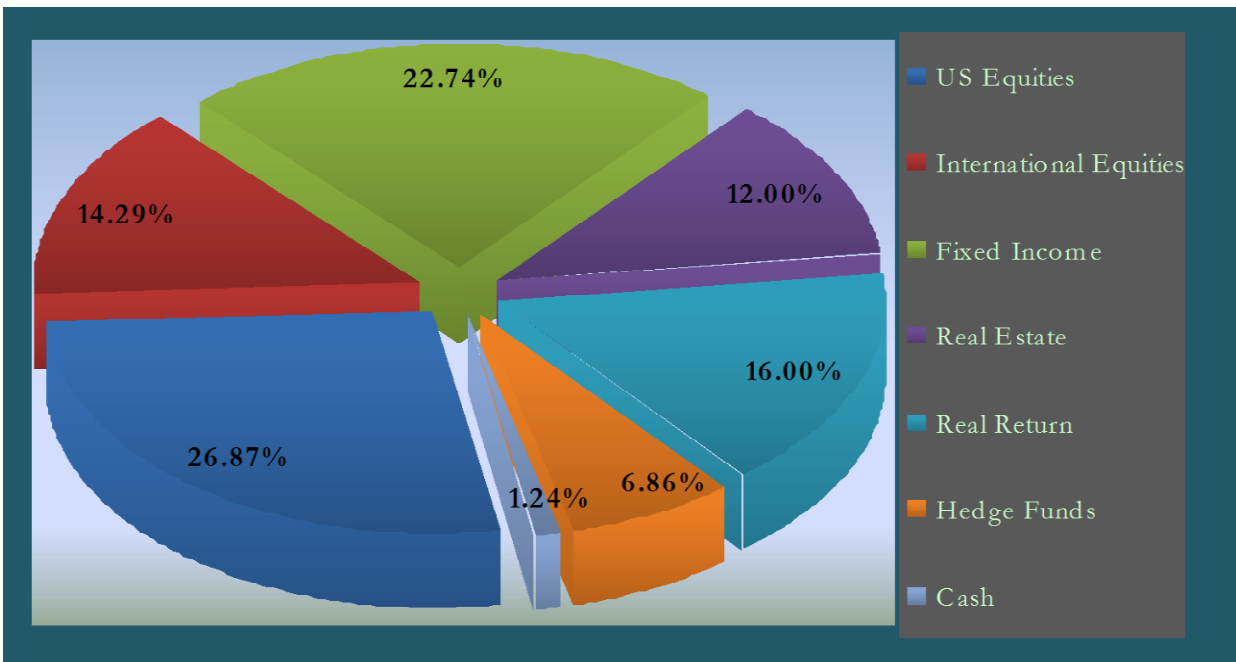
## Investments Summary

For the fiscal year ended June 30, 2014, the Plan's investment portfolio produced a return of 15.88%. The chart below summarizes investment performance.

**Schedule of Investment Results  
For the Fiscal Years Ended June 30, 2014**

|                         | 1-Year | Annualized |         |
|-------------------------|--------|------------|---------|
|                         |        | 3-Years    | 5-Years |
| <b>TOTAL PORTFOLIO:</b> |        |            |         |
| <b>COPERS</b>           | 15.88% | 8.81%      | 11.52%  |
| Target Benchmark        | 15.31  | 8.99       | 11.15   |

**Actual Asset Allocation  
as of June 30, 2014**





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Financial Reporting

Presented to

**City of Phoenix Employees'  
Retirement System, Arizona**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



Visit COPERS at:

[www.phoenix.gov/copers](http://www.phoenix.gov/copers)

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Data presented in this report was derived from our June 30, 2014 Comprehensive Annual Financial Report (CAFR). The Popular Annual Financial Report (PAFR) and CAFR were prepared in accordance with Generally Accepted Accounting Principles (GAAP). The CAFR provides in-depth information about the financial, investments, actuarial and statistical aspects of the pension plan. This PAFR and the CAFR are available at [www.phoenix.gov/copers](http://www.phoenix.gov/copers), by phone at (602)534-4400 or by email at [copers@phoenix.gov](mailto:copers@phoenix.gov).